

Message Text

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ACTION EB-08

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E.O. 11652: N/A
TAGS: EFIN, ECRP, AR
SUBJECT: CERP 0102 - 1978 BALANCE OF PAYMENTS FOR ARGENTINA

REF: (A) BUENOS AIRES 2650, (B) BUENOS AIRES 3698

1. CENTRAL BANK OFFICIAL HAS GIVEN EMBASSY LATEST
BALANCE OF PAYMENTS PROJECTION FOR ARGENTINA IN 1978
AS FOLLOWS:

MILLIONS DOLLARS

CURRENT ACCOUNT	1500
MERCHANDISE BALANCE	1400
(A) EXPORTS	5500
(B) IMPORTS	4100
NON-COMPENSATORY	
CAPITAL MOVEMENTS	1200
INTERNATIONAL PAYMENTS	2700
(1) RESERVE VARIATION (-:INCREASE)	-1360
(2) COMPENSATORY MOVEMENTS	-1340

2. COMMENT: ACCORDING TO THE CENTRAL BANK OFFICIAL,
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THE ABOVE FORECAST TAKES INTO ACCOUNT THE RECENT
MANDATORY PESO DEPOSIT REQUIREMENT FOR FOREIGN
FINANCING AND THE REPLACEMENT OF THE "MINIDEVALUATION"
EXCHANGE RATE SYSTEM BY ONE BASED ON SUPPLY AND
DEMAND FOR FOREIGN CURRENCY (SEE REF B). DESPITE
THESE MEASURES, IT IS NOW CLEAR THAT ARGENTINA'S
PROJECTED BALANCE OF PAYMENTS SURPLUS IS NOW

HIGHER THAN IT WAS BEFORE (REF A). EXPORTS ARE HIGHER THAN PROJECTED EARLIER BECAUSE OF THE EXCEPTIONALLY FINE COARSE GRAIN AND OILSEED HARVEST AND THE RISE IN INTERNATIONAL AGRICULTURAL PRICES; THE IMPORTS LOWER THAN ANTICIPATED BECAUSE OF THE SMALLER GDP PROJECTION. CONTRARY TO WHAT MIGHT BE EXPECTED, THE SLOWER RATE OF DEVALUATION (THE PESO/DOLLAR EXCHANGE RATE REMAINED VIRTUALLY STATIONARY IN MAY WHILE INFLATION FOR THE MONTH IS PROJECTED AT 9 PERCENT) WILL PROBABLY HAVE ONLY A MINIMAL IMPACT ON THE REDUCING OF THE TRADE SURPLUS. DUE TO A SHORTAGE OF STORAGE CAPACITY, AGRICULTURAL SURPLUSES WILL HAVE TO BE EXPORTED; THE MANUFACTURING WILL BE FORCED BY LOW DOMESTIC DEMAND TO SEEK FOREIGN OUTLETS IN AN EFFORT TO COVER FIXED COSTS (I.E. DUMPING); AND BUSINESSES WILL TRY TO KEEP STOCKS OF IMPORTED RAW MATERIALS TO A MINIMUM. THE MANDATORY DEPOSIT PROVISION, ON THE OTHER HAND, WILL REDUCE THE NET INFLOW OF CAPITAL.

3. THE \$1340 MILLION OUTFLOW IN COMPENSATORY MOVEMENTS REPORTEDLY REPRESENTS A GOA DECISION TO PREPAY THE \$1.3 BILLION IN FINANCING OBTAINED IN 1976 FROM THE IMF AND THE US, EUROPEAN, JAPANESE, AND CANADIAN COMMERCIAL BANKS. THE PREPAYMENT NOT ONLY MAKES SENSE FROM THE POINT OF VIEW OF HOLDING DOWN THE IMPACT LIMITED OFFICIAL USE

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OF THE EXTERNAL SECTOR ON INTERNAL MONETARY EXPANSION BUT ALSO BECAUSE ARGENTINA'S CREDITWORTHINESS HAS IMPROVED TO SUCH AN EXTENT THAT IT CAN NOW OBTAIN MUCH BETTER TERMS THAN IT COULD IN 1976. WITH SUCH A STRONG BALANCE OF PAYMENTS SITUATION, IT IS EASY TO UNDERSTAND COMMENTARY IN THE LOCAL PRESS ON AMBASSADOR AJA ESPIL'S PROTEST AGAINST SUSPENSION OF EXIMBANK LENDING TO ARGENTINA TO THE EFFECT THAT OUR CUTOFF OF CREDIT MIGHT BE DOING ARGENTINA A FAVOR. CASTRO

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